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TREASURY FOR AFAIBISHENKO, AJEWEL, WBLOCK
E FOR THOMAS PIERCE, WHA FOR WHA/BSC AND WHA/EPSC
PASS NSC FOR JOSE CARDENAS
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
EX-IM BANK FOR MICHELE WILKINS
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER
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TAGS: [EFIN](#) [ECON](#) [AR](#)

SUBJECT: ECONOMY MINISTER MICELI'S VIEWS ON IDB, PARIS
CLUB, HOLDOUTS, 2007 BUDGET

REF: A. BUENOS AIRES 2202

[1](#)B. BUENOS AIRES 2080

Classified By: CdA Michael Matera. Reasons 1.4 (b,d)

Summary

[1](#)1. (C) Minister of Economy Felisa Miceli told Charge September 27 that President Kirchner's visit to the U.S. showcased Argentina's rapid normalization and increasing opportunities for investors. She questioned the logic of recent U.S. votes in the IDB, but accepted Secretary Paulson's explanation during their meeting in Singapore that certain project proposals did not fit the U.S. view of the IDB's role. She confirmed that the GoA will seek to negotiate a Paris Club rescheduling in 2006, but ruled out any deal before the 2007 elections with holdouts from the 2005 restructuring. The opposition criticized GoA lowballing of macroeconomic assumptions, especially revenue projections, during Miceli's September 26 presentation of the 2007 budget to Congress. Miceli justified the conservative assumptions as a means to keep the lid on spending, especially by the provinces. End Summary.

Kirchner's U.S. Trip Highlights Rising Investment

[1](#)2. (C) Charge and Econoffs met September 27 with Minister of

Economy Miceli to follow up on her recent trips to Singapore and New York and to seek her views on Paris Club debt and the 2007 budget. Miceli, who came across as open and engaging, argued that President Kirchner's visit to the U.S. had helped to rebuild confidence in Argentina, and had highlighted the opportunities for investors in Argentina's fast-growing economy. She noted that investment has rebounded to 22.8% of GDP, equaling the record high of 1998, and named Wal-Mart, Cargill, and Occidental, as companies that in New York had promised new investments to Kirchner.

13. (C) Miceli agreed with Charge's comment that still more investment -- and especially investment in major infrastructure development -- was needed to maintain high Argentine growth rates. However, she maintained the party line in response to his warning that many investors were complaining of price controls -- particularly their often arbitrary and unexpected application -- and that this could dampen interest. She commented that businesses operating in Argentina, unlike in the more competitive economies of the U.S. and Europe, needed "to behave more responsibly," and price controls were one tool to avoid price gouging by forcing companies to price based on their costs of doing business (Ref A). She argued that the government was taking the necessary, cautious steps to prevent Argentina from continuing on its normal path of economic crisis every ten years.

Miceli's Views on U.S. IDB Votes

14. (C) Miceli said she had questioned the logic of U.S. IDB

votes during her recent meeting with Treasury Secretary Paulson in Singapore (on the margins of the IMF/World Bank annual meeting). In particular she was confused by the "contradictory signal" the U.S. sent by voting against an IDB satellite project, after supporting other IDB communication projects. Nevertheless, she accepted Secretary Paulson's explanation that certain projects, such as the satellite deal, did not fit the U.S. view that the IDB should focus on primary development initiatives. Miceli also acknowledged that the U.S. has voted in favor of over 95% of IDB projects for Argentina. Even more important, in her view, was the strong U.S. support for the World Bank's Argentina projects.

GoA Plans to Settle Paris Club Debt but not Holdouts

15. (C) Miceli confirmed Finance Secretary Mac Laughlin's statement during an earlier meeting with Emboffs (Ref B) that the GoA's goal is to negotiate and conclude a Paris Club deal before the end of the year (Note: Argentina owes approximately \$6.3 billion to Paris Club creditors, of which about \$3.5 billion consists of arrears and past due interest. End Note). She, Mac Laughlin and key staff have developed a proposal, and Mac Laughlin will travel in the near future to several countries to discuss options and gain support for Paris Club consideration of Argentine arrears.

16. (C) Miceli acknowledged two potential problems. She admitted to some disagreement within her Ministry as to whether an IMF agreement is a prerequisite for Paris Club debt restructuring. Secretary of Economy Policy Oscar Tangelson believes it is a requirement, while Mac Laughlin has stated that Paris Club rules are flexible on this point (Ref B). Miceli welcomed U.S. comments on this point, but also emphasized that the GoA's proposal would be modest: no nominal reduction or "haircut" in amount owed, just a grace period and lengthening of the repayment period. She noted that if an IMF agreement is a hard requirement, then there will be no deal. The second complication is the \$850 million credit Spain granted to Argentina during the 2001 crisis, which Spain would like to see repaid outside the Paris Club. Miceli admitted to discussing this with Spanish government officials during Kirchner's visit to Spain earlier this year, and she acknowledged to Charge that the GoA would need to harmonize the debt to Spain with the overall official debt

through the Paris Club.

¶7. (C) Miceli rejected any chance of working a deal before planned October 2007 elections with holdouts from the early 2005 private debt restructuring agreement ("Canje"), in contrast to Mac Laughlin's speculation that the GoA had a window of opportunity before the end of the year (Ref B). Nevertheless, she said the GoA could possibly address holdouts sometime after the election, contradicting the GoA's public position (and Argentine law) that the GoA will not negotiate with holdouts. (Comment: while the "Cerrojo" law from 2005 prohibits the GoA from reopening the last bond swap or cutting one-off deals with holdouts, the draft 2007 budget authorizes the Executive to "pursue the normalization of

public debt servicing." Several prominent local economists have interpreted this as possibly cracking open the door to an eventual solution. End Comment).

Miceli Views on GoA's 2007 Budget

¶8. (C) Miceli was pleased with the success of the GoA's September 26 presentation of the 2007 budget to Congress, although she noted the opposition's strong criticism of GoA lowballing of macroeconomic assumptions. (Note: the budget bill projects 2007 real GDP growth of only 4%, and 2007 CPI inflation in the 7% range, both well below consensus estimates. While the economy will likely decelerate in coming quarters, most analysts expect real GDP growth of about 6% in 2007, after growing at least 7.8% in 2006. End Note).

¶9. (C) Miceli admitted that the government had purposefully underestimated the figures, and agreed that GDP growth would approach 6% in 2007. However, she justified the move as a means to reign in spending, and claimed to be particularly concerned with the state of provincial finances. In an exasperated tone, Miceli stated that "sometimes I think President Kirchner is the only person in Argentina who understands the importance of a fiscal surplus." The key point, she argued, was that the GoA needed to maintain an annual primary surplus of at least 3% of GDP simply to meet expected debt payments over the next 25 years. (Comment: local analysts attribute the GoA's conservative numbers to its desire to direct over-budget revenues to a "Superpower slush fund," citing recent "Superpower" legislation that allows the executive significant new powers to re-allocate already budgeted funds and unanticipated revenues without seeking congressional approval. They believe that lowballing revenue estimates will give the Kirchner administration a free hand to target unbudgeted revenues to social service and project spending with an eye on October 2007 elections. End Comment).

Comment

¶10. (C) A Paris Club deal would be positively received domestically and internationally as a step on the path to Argentina's post-crisis normalization, and would facilitate the flow of incremental sovereign credits to Argentina -- including new sovereign export finance credits. And while this appears doable -- with creditor goodwill and Paris Club flexibility and creativity in finessing the GoA's unwillingness to sign onto another IMF program -- a resolution to the bond holdout issue appears out of the question. Despite 2007 budget language that appears to offer an opening and contrary to Mac Laughlin's argument that a window of opportunity exists to settle with the holdout, Miceli left no doubt that this will not happen before elections. Whether Miceli has the political pull to deliver an acceptable Paris Club deal -- or make any move on holdouts post-election -- is unclear. Certainly the private sector discounts Miceli as a lightweight, placed in her job to

implement the policies of her mentor, Planning Minister Julio de Vido, and lacking power or direct influence with the President. Many below her in the Ministry share this sentiment (see Ref A), and she showed during the meeting that she will toe the current party line on key policies such as price controls and holdouts. Nevertheless, she demonstrated confidence and command of the issues, and appeared interested in building a relationship with the U.S. End Comment.

MATERA